BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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Application of Pacific Gas and Electric Company To Revise Its Electric Marginal Costs, Revenue Allocation, and Rate Design	Application 06-03-005 (Filed March 2, 2006)

POST-WORKSHOP COMMENTS OF THE CALIFORNIA MANUFACTURERS AND TECHNOLOGY ASSOCIATION AND ENERGY PRODUCERS AND USERS COALITION

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December 11, 2007

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In accordance with the schedule prescribed in this matter, the California Manufacturers and Technology Association (CMTA) and the Energy Producers and Users Coalition (EPUC)[1] hereby jointly submit their comments in response to the workshop sessions convened on November 5 and 6, 2007.

CMTA and EPUC believe that the workshops were well-organized and productive, but that nevertheless the discussions did not reflect an broad consensus on most issues. Both CMTA and EPUC submitted written comments prior to the workshops. At this juncture, CMTA and EPUC have relatively little to offer by way of additional comments, but we anticipate providing more definitive comments once a "strawman" rate design proposal is presented.

Accordingly, CMTA's and EPUC's post-workshop comments will be brief and will focus on some "preliminary conclusions" proposed in the slide presentation used at the workshop.

[1] EPUC is an ad hoc group representing the electric end use and customer generation interests of the following companies: Aera Energy LLC, BP West Coast Products LLC, Chevron U.S.A. Inc., ConocoPhillips Company, ExxonMobil Power and Gas Services Inc., Shell Oil Products US, THUMS Long Beach Company, Occidental Elk Hills, Inc., and Valero Refining Company – California.

1. Rate Design Objectives.

The workshop presentation lists the following "preliminary conclusions" for the objectives:

> Dynamic pricing should reflect long-run marginal cost

> Prioritization and balancing of marginal cost with other objectives such as energy efficiency and baseline allowances should be addressed when designing specific rates

> Dynamic pricing should also seek to provide stability, simplicity, and customer choice

Although CMTA and EPUC generally agree with these objectives, in our view the list is incomplete since it does not mention the goal of promoting economically efficient decisionmaking. For large industrial customers, it is the customer who must decide whether a proposed response to a dynamic price signal is economically efficient taking into account all of the related operational costs that the customer faces. CMTA and EPUC emphasize this point out of a concern that policymakers' perception of "economic efficiency" may fail to consider the real-world impacts that confront large customers and that ultimately will govern customers' conduct.

Establishing economic efficiency as an overall objective also is essential given the uncertain nature of the price signals provided by future market prices. As several parties have observed, the PRM in conjunction with a centralized capacity market may operate to suppress real time or Day Ahead prices and thus minimize the need for demand response. Such a result would not mean that dynamic pricing is a failure or that artificial prices should be substituted for market prices, but rather it would simply reflect a rational economic outcome. In brief, if market prices do not increase significantly during peak periods, there is no economic benefit to be realized by shifting loads.

2. Sources of Marginal Energy Costs.

The workshop presentation lists the following "preliminary conclusions" on this subject:

> Once the CAISO's day-ahead market is up and running PG&E should use prices from that market plus ancillary services costs and future scarcity prices to derive a marginal cost of energy

> Nodal prices will have to be aggregated and 10-minute prices will need to be converted to longer time intervals

> The Commission should try to determine the degree to which energy prices include capacity value

> The Commission will need to examine these issues in detail once MRTU has gone live

> In the interim, dynamic pricing should be based on proxies including the existing day-ahead markets

CMTA and EPUC generally support the use of actual market prices for dynamic pricing purposes rather than administratively determined "proxy prices." Based on the workshop discussions, it appears there is widespread agreement that Day Ahead (DA) prices that become available once the CAISO implements the MRTU early next year will be an acceptable source of market prices. CMTA and EPUC also agree with PG&E that these DA prices should be monitored for at least 12 to 18 months before they are actually used for dynamic pricing purposes. As a practical matter, the timing associated with the MRTU implementation and gaining experience with the DA market is fully compatible with the stated goal of implementing dynamic pricing on the PG&E system during 2011.

3. Sources of Marginal Capacity Costs.

The "preliminary conclusions" listed in the workshop presentation for this topic are as follows:

> As long as wholesale energy prices do not include capacity costs, the capacity cost must be administratively estimated

- In the future a centralized capacity market or bulletin board could provide the marginal cost of capacity
- In the interim a proxy should be used
- Proxies for marginal costs of capacity should be further explored in this phase (possibly in conjunction with R.07-01-041, the Demand Response Load Impact OIR)

CMTA and EPUC agree that the use of actual market prices generally raises the issue of whether the price includes a capacity component. However, the significance of this issue is likely to depend on the nature of the source of the market prices. For example, in a DA market administered by the CAISO in conjunction with either a bilateral trading program or a centralized capacity market, it seems unlikely that the DA prices would reflect significant capacity costs. Therefore, with a 2011 target date for implementing dynamic pricing on the PG&E system, the issue of how to account for marginal capacity costs may be mooted by mechanisms in place at that time and by the very nature of the market prices.

4. <u>The Use of Capacity Costs in Dynamic Pricing</u>.

The preliminary conclusions in the workshop presentation regarding the use of capacity costs in dynamic pricing are:

- Capacity costs in dynamic pricing should change no more frequently than energy costs and must be administratively allocated
- The Commission should examine methods to allocate capacity costs to time periods in this phase
- In this phase the Commission should consider what share of capacity costs should be collected through an energy charge and what share should be collected through a demand charge

In response, CMTA and EPUC submit that dynamic pricing generally should focus on energy costs rather than capacity costs. For large customers, capacity costs generally should be recovered through demand charges which may have seasonal variations. CMTA and EPUC are

opposed to the recovery of any significant amount of capacity costs through energy charges. Additionally, at some large customer sites with multiple meters, demand charges are currently netted across the meters for the entire site. If the energy and capacity costs are both subject to dynamic pricing, such customers could pay twice for capacity during the "events". Further, for those customers who also generate electricity at their sites, the energy charge would apply for imports during the "event" period, even when the site as a whole is either neutral or exporting, exacerbating the existing differential between power exported through one meter and imported through another. Dynamic pricing should be limited to the energy component and only apply to "net" consumption by a site during an "event" period.

It also should be emphasized that limiting dynamic pricing to the energy component of generation costs will tend to minimize the over- or under-collection problems inherent in dynamic pricing and CPP.

5. Real Time Pricing.

CMTA and EPUC observe that the term "real time pricing" is something of a misnomer. We believe that most workshop participants recognize that in order for a "real time price" to be effective in promoting demand response, it is essential that customers receive advance notice of that price so that they can plan their responses. Thus, as a practical matter, the term "real time" price refers to the type of "day ahead" price that will be available once the MRTU is implemented.

6. Time of Use Rates.

The workshop handout lists the following "preliminary conclusions" for this topic:

> This phase should primarily focus on dynamic pricing, not TOU rate

> However, this phase should examine residential, and possibly agricultural TOU policy

CMTA and EPUC disagree with this characterization of TOU rates if it is meant to suggest that pricing mechanisms in addition to TOU rates are needed for the largest customers. As explained in CMTA's comments, many of the largest industrial customers cannot shift load or respond to dynamic pricing signals due to the continuous nature and technical requirements of their operations. Other large customers are likely to find that any energy savings that would result from a load shift will be far outweighed by cost increases in other aspects of their operations. Moreover, it is beyond dispute that the space-conditioning demands of residential and commercial customers are the loads that drive system peaks. The TOU program has been in place for many years for large customers and, where feasible to do so, has allowed customers to incorporate process modifications to minimize loads during the peak. As a consequence, the Commission should recognize that the existing TOU program is better suited for many of the largest customers (>500 kW) than is a dynamic pricing or CPP program.

7. <u>Hedging Issues</u>.

CMTA and EPUC agree that customers subject to dynamic pricing should have the opportunity to hedge their risks. However, we also agree with other workshop participants that hedging products are not readily available and, if they are, are very expensive. There is no reason to believe that any hedging products that the utilities might offer to customers subject to dynamic pricing would be economically attractive. As a practical matter, the type of "hedge" that makes the most sense to us is a two-part part rate (demand and energy components) where only the energy component, or a portion thereof associated with incremental usage above a baseline quantity, is subject to dynamic pricing.

8. Voluntary or Default Program.

CMTA and EPUC continue to support a voluntary approach to dynamic pricing. This will allow those customers that can respond to dynamic price signals to opt into such a program. In the alternative, we support a "default with opt out" mechanism to ensure that those customers who have no or limited ability to respond to price signals are not trapped into a program that is unworkable for them.

9. Customers' Need for Timely Access to Their Hourly Usage Data.

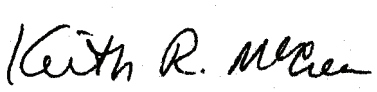
This issue has been largely ignored and was surfaced only near the end of the workshop discussion. Based on that discussion, there appears to be no dispute that (1) customers must have real-time access to their hourly usage data under a dynamic pricing program, and (2) such access generally is not currently offered by the utilities. In our view, customer access to their hourly usage data on a real-time basis is a threshold issue which must be resolved prior to implementation of any dynamic pricing program.

10. Coordination with Existing A/C Cycling Programs.

Until interval meter data is readily available to small and medium-sized customers, the Commission should continue to evolve the existing A/C cycling programs and other demand-side measures that have proven to successful to peak demand management. Leveraging existing programs will ensure that demand reduction benefits are maximized and that dynamic pricing does not inadvertently dilute the results achieved by those highly successful programs. Care should be taken to ensure that dynamic pricing achieves additional demand reductions that would not otherwise be obtainable under existing A/C cycling programs.

In conclusion, CMTA and EPUC appreciated the opportunity to participate in the workshop discussion and anticipate actively participating in future phases of this proceeding.

Respectfully submitted,



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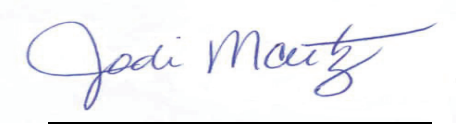
CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing "Post-Workshop Comments of the California Manufacturers & Technology Association and Energy Producers and Users Coalition" upon each person designated on the official service list compiled in this proceeding.

Dated at Washington, D.C. this 11th day of December, 2007.



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